Q1 2015 Earnings Call

Company Participants
- Petros Pappas
- Simos Georgios Spyrou
- Hamish Norton
- Christos Begleris

Other Participants
- Amit Mehrotra
- Spiro M. Dounis
- Charles William Rupinski

Operator

Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the First Quarter 2015 Financial Results. We have with us Mr. Petros Pappas, Chief Executive Officer; Mr. Hamish Norton, President; and Mr. Simos Spyrou and Mr. Christos Begleris, Co-Chief Financial Officers of the company. At this time, all participants are in a listen-only mode. There'll be a presentation followed by a question-and-answer session.

I must advise you that this conference is being recorded today Wednesday, the 1st of July, 2015.

And we now pass the floor to one of your speakers today, Mr. Pappas. Please go ahead, sir.

Petros Pappas

Thank you, operator. I'm Petros Pappas, Chief Executive Officer of Star Bulk Carriers, and I would like to welcome you to the Star Bulk Carriers' conference call regarding our financial results for the first quarter of 2015.

Before we begin, I kindly ask you to take a moment to read the Safe Harbor statement on slide number 2 of our presentation.

Turning to slide 3, the first quarter has been the worst dry bulk market on record with the all-time low of the Baltic Dry Index, set on February 18. Our financial results have therefore been disappointing, but we're continuing to pursue a number of actions that will increase our liquidity while also reducing our breakeven levels.

Looking ahead to the second half of 2015, we remain fully committed to take measures to protect our equity value and allow us to weather the most challenging dry bulk market in my 38 years of experience. We recorded an adjusted net loss of $30.3 million and adjusted EBITDA of negative $5.6 million on net revenues of $31.7 million.

Our fleet currently consists of 69 vessels on the water. In April, we completed the delivery of all 34 vessels we acquired from Excel Maritime and are continuing to take delivery of our eco newbuilding vessels, adding five vessels in Q1 2015 and nine vessels year-to-date. We have 25 vessels remaining to be delivered all by the end of 2016.

As part of our planned fleet renewal, we have sold eight 1990's built vessels that did not fit our commercial profile, two Capesize, five Panamax and one Handymax vessels. Proceeds from the vessel sales completed since December 2014 were approximately $18.5 million in Q1 and $42.2 million through today.

We have been able to reduce our costs. OpEx for Q1 was $4,439 per day, down 7% from a figure for calendar 2014.

Our net cash G&A expense for the quarter was cut by 22% to $1,130 per day per vessel. This makes us one of the lowest cost operators in the dry bulk space. We're seeing a direct effect of our economies of scale and strong relationships with key suppliers on our bottom lines.

We have negotiated with our shipyards to postpone $288 million of predelivery and delivery installments from 2015 into 2016.

Weighted average payments have been delayed by 4.8 months. We have also shifted our newbuilding vessel delivery schedule by 78 months in aggregate for an average of 3.4 months per vessel. As part of our discussions, we have managed to cancel a newbuilding vessel with no penalty to the company, a saving of $11.6 million in equity CapEx.

This overall arrangement is a result of the close relationships we have with our shipyards, which enabled us to agree a mutually beneficial rescheduling of newbuilding vessel deliveries and installment payments at no extra cost to the company.

These agreements increased the liquidity of the company in the near term and enable us to take delivery of our vessels at the time when we expect trades will have improved. The vessels that have been moved into 2016 will also have a high resale value as they will be one year younger. We raised proceeds of $425 million from equity offerings in January 2015 and May 2015. These funds should allow us to outlast this market downturn and benefit from an eventual recovery.

Our core shareholders have continued to actively support the company through their significant participation in these offerings. We have been proactively working with our banks in order to be in a position of strength if there is no market recovery during 2015 and 2016.

We have agreed to relax the corporate leverage and certain security coverage ratios, while we have agreed a waiver of the corporate EBITDA to interest coverage ratio until the end of 2016.

Our financing institutions have been extremely supportive as they have seen our plan of action to deal with a low market and are cooperating, so that we have no covenant compliance issues through 2016.

With respect to the other financing updates, during 2015 we have repaid $22.2 million related to the debt on our 1990's built vessels sold to third parties, leaving us with five unencumbered vessels. As of today, we have total debt commitments of $745.8 million for 24 out of the 25 newbuilding vessels of our fleet and are in the last stages of converting $32.5 million of negotiated debt for the remaining newbuilding delivery in 2016 into a firm commitment.

We remain focused on our long-term goal of creating a strong and efficient dry bulk shipping company that will create value for its shareholders throughout the shipping cycle.

I would now like to pass the floor to one of our Co-Chief Financial Officers, Simos Spyrou, to walk you through our first quarter financial statements.

Simos Georgios Spyrou

Thank you, Petros. Let us now turn to slide number 5 of the presentation for a summary of our first quarter 2015 financial highlights in comparison to last years. In the three months ended March 31, 2015, net revenues amounted to $31.7 million, 64% higher than the $19.3 million for the same period in 2014.

Net revenues represent our total revenues adjusted for non-cash items less voyage expenses. The reason we refer to our net revenues is because this figure nets out any difference in revenue recognition between voyage charters and time charters and therefore is directly comparable to other periods.

This increase is attributable to the significant increase of the average number of vessels to 65.1 vessels on average in the first quarter of 2015, so 15.8 vessels on average in the first quarter of 2014.

Adjusted EBITDA for the first quarter 2015 was negative $5.6 million, a decrease versus last year's figure of $7.8 million. Net loss for the first quarter of 2015 was $40.2 million or $0.26 loss per share versus a loss of $0.9 million or $0.03 loss per share in the respective period of 2014.

Excluding non-cash items and one-off expenses, our adjusted net loss for the first quarter 2015 amounted to a loss of $30.3 million or $0.20 loss per share versus $1.7 million adjusted net income or $0.06 gain per share in the first quarter of 2014.

Our time charter equivalent rate during this quarter was $6,866 per day compared to $14,343 per day last year. This is an illustration of the weak first quarter of 2015 compared to last year's rally during the same period.

Our average daily operating expenses were $4,739 per vessel per day compared to $5,629 per day during the same period last year, representing a 16% reduction. The reduction is even bigger if we exclude approximately $1.8 million or $300 per day of predelivery expenses, related to the acquisition of the Excel fleet and the deliveries of our newbuilding vessels.

Taking these adjustments into account, average daily operating expenses would have been $4,439 per day per vessel, a reduction of 7% compared to the full-year 2014 similarly adjusted figure of $4,750 per day per vessel.

Our average daily G&A expenses, excluding non-cash items and including any management fees that we paid to third-party managers, were $1,130 per vessel per day compared to $1,473 per day per vessel during the same period last year, representing an impressive 23% reduction.

Both the reduction in our daily operating expenses and in our daily G&A expenses are clear proofs of the effect of the synergies and economies from managing a larger fleet. We will continue to focus on the cost side of the equation to make sure we have lean operations that reduce our breakeven levels as low as possible.

Kindly turn now to slide 6 for a review of our balance sheet as of March 31, 2015. Total cash balance, including restricted and pledged cash, stood at $226.6 million. Note that in May 2015, we significantly strengthened our balance sheet with a $180 million equity raise that ensures that the company has a strength to withstand the current market environment.

As of June 24, we have a healthy cash balance of $335.2 million and six debt-free vessels which, due to their age, do not fit our commercial profile. They can be used as potential sale candidates to further strengthen our liquidity. Other current assets stood at $43.5 million at similar levels to the previous quarter.

Net fixed assets stood at $1.6 billion versus $1.4 billion in the first quarter 2014. The 2015 figure includes the 68 vessels on the water as of March 31. Advances for vessels under construction stood at $400.6 million, comprised of $271 million cash paid for newbuilding

installments for our 34 remaining newbuildings as of March 31, 2015 and $17 million of capitalized borrowing and supervision costs.

As we have noted previously as well, in the process of consolidation with Oceanbulk last year, as per the U.S. GAAP provision for business combinations, a fair value adjustment of $113 million was recorded in this account on top of the cash newbuilding installment paid.

On the liability side, total debt as of March 31, 2015 stood at $907.5 million versus $816.8 million at the end of 2014.

Total shareholders' equity as of March 31, 2015 stood at $1.37 billion versus $1.15 billion for 2014. Based on the above, our net debt was $680.8 million as of March 31, 2015 implying a net debt to capitalization ratio of 29.9%.

And now, I will pass the floor to our President, Hamish Norton, to continue with an update on our OpEx performance.

Hamish Norton

Yeah, thank you, Simos. Please turn to slide 8 where we summarize our operational performance for the quarter. Unlike many of our competitors, we manage our vessels in-house which provides us with a distinct advantage in terms of quality and cost. During the first quarter of 2015, we continue to see the positive effect of our economies of scale in practice as the number of in-water vessels increased to 68 as of March 31, 2015.

In this difficult market environment, low breakeven rates are vital, and we aim to continue being one of the lowest cost dry bulk operators going forward without compromising our high quality and operational standards.

On the bottom left graph, you can see the evolution of our average daily operating expenses for over six years. Since 2009, our daily operating expenses have been reduced from $6,903 per vessel per day to $4,439 in Q1 2015, a 35.7% cumulative reduction. We are nevertheless focused on maintaining the highest standards of vessel maintenance safety and operation. So, the reduction in daily OpEx is taking place at a time when more than 85% of the vessels managed by Star Bulk have a rating of five stars by RightShip which is their maximum rating. The overall condition of our fleet is at excellent levels with all of our vessels ranked either four or five stars.

On the bottom right graph, you can see the evolution of the average daily net cash G&A expenses per vessel. Due to the significant increase of vessels under management, we have grown our head count to accommodate the existing vessels and ones we expect to take delivery up in the near future.

Nevertheless, our average daily net cash G&A expenses per vessel is lower than 2014's levels at $1,130 per vessel per day, which is a reduction of 22%. This is another area, where we have direct contributions to our bottom line from the fact that we can spread the cost of our employees over a much larger fleet. We expect that as we continue taking delivery of our newbuilding vessels, many of which are sister ships, we will have further synergies across the fleet that will enable us to further reduce our operating expenses in G&A. We're building a platform that we hope will be one of the lowest cost providers in the industry, and we are dedicating time and resources to make it as efficient as possible.

And now, I will pass the floor to our Co-Chief Financial Officer, Christos Begleris, to continue with an update on our covenant relaxation discussions and newbuilding postponements.

Christos Begleris

Thank you, Hamish. Please turn to slide 9 where we summarize the agreements with our yards, and the postponement of our CapEx and newbuilding deliveries. We have agreed to defer $288 million of predelivery and delivery installments to our yards from 2015 to 2016. This is a combination of long discussions we have had with our shipbuilding partners in order to improve the payment and delivery schedule of our vessels and accommodate the current weak freight environment.

In aggregate, we have managed to push deliveries by a total of 78 months for an average delay of 3.4 months per vessel, and capital expenditures are delayed by weighted average of 4.8 months. At the bottom of the page, you will also see our updated CapEx schedule as of June 24, 2015 adjusted for the agreed changes in payments and delivery schedules.

There are three distinct benefits to the company from these agreements. First of all, we improve our liquidity position in the short-term. Secondly, we are able to take delivery of our eco newbuilding fleet later when charter rates may have improved from current historical lows. Finally, we are able to increase the resale value of these vessels in the long term by taking delivery a year later, in effect, gaining the value from ships which will be one calendar year younger.

Moving to slide 10, we want to present the major covenant relaxations we have agreed with all banking institutions with which we have loans with until the end of 2016. Let me underline that we are not in breach of any corporate loan covenants. We're being proactive should the market remain as challenging in the next 18 months as it has been year-to-date in 2015.

With respect to the guarantor, we have agreed to relax the leverage ratio in order to protect ourselves from any further downturn in vessel values. We have agreed to waive the

corporate EBITDA to interest coverage ratio until December 31, 2016. We have agreed to relax the security coverage ratio on our financings at the borrower level in order to provide some margin in case vessel values drop further.

Our banks have been very supportive of our plan of action to tackle the current challenging market environment. This announcement is a clear indication of their support.

Having said that, I will now pass the floor back to Petros for a market update and his closing remarks.

Petros Pappas

Thanks you, Christos. During the first half of 2015, we experienced what can be characterized as the worst market in the recent history of dry bulk. The weakness was apparent on all vessel subcategories with major Baltic Indices recording historical lows. The low freight environment during Q1 is the result of an unprecedented negative demand growth during a period that the market had already been dealing with oversupply.

Vessel demand became even more challenging as the continuing fall of commodity prices affected buying activity and led to severe destocking of all major dry bulk commodities with a significant negative effect on seaborne traded volumes.

This recent market shock could prove to be a blessing in disguise for the dry bulk market as it has forced owners to take action. During the first months of 2015, we have experienced record-high levels of demolition and significant delays in scheduled deliveries. Furthermore, orders have been running at record low levels since October 14.

In fact, after we adjust for conversions and cancellations, we can say with confidence that we have practically experienced negative contracting of vessels. The above adjustments have put a ceiling for medium term fleet growth and as a consequence, the fundamental requirements for a sustainable recovery are slowly being built.

Let's now turn to slide 12 for a brief update of supply. During the first five months of 2015, we have identified more than 20 million deadweight that has already been scrapped and/or committed for demolition. This compares with $16.2 million deadweight demolished throughout 2014 and $7 million deadweight demolished during the first five months of 2014.

Of note is that the Capesize sector has seen approximately 75 vessels or a total of 12.5 million deadweight already scrapped and/or committed for demolition. This unexpectedly strong supply response has led the current Capesize fleet to stand at lower levels than October 2014.

Reported new dry bulk orders for 2015 year-to-date currently stand at approximately 2 million deadweight. As we have stressed in the past, placing the new orders is the most important indicator for the future, and onus discipline during the next year remains key for a sustainable recovery to take place.

We also believe that the significant share of the existing order book, which currently stands at 18.5% of the fleet, will never be delivered. This conclusion can be supported from the fact that the increased conversion activity has taken place during the first half of 2015. We have currently identified more than 35 Capesize and Newcastlemax vessels of approximately 7 million deadweight to have been converted to tankers and containers.

The above supply related developments have led us to revise downwards our dry bulk fleet growth forecast up 2017.

We expect dry bulk fleet growth in 2015 to remain below 3% and could even decrease below 2% if the current pace of demolition activity continues.

Focusing on 2016 and 2017, dry bulk supply can be expected to receive indirect support from the tanker and container sectors. Increase orders in other shipping sectors can be expected to help first-tier yards to fill capacity, delayed dry bulk deliveries and constrained medium-term fleet growth.

Let's now turn to slide 13 for a brief update of demand. Dry bulk trade growth during the first half of 2015 experienced a sharp slowdown, mainly as a result of the ongoing commodity price correction that began in the second half of 2014.

The steel industry is the important sector for dry bulk trade. The recent steel consumption slowdown affected demand for raw materials related to the production of steel products. Consequently, it has also led to a slowdown in energy consumption and impacted thermal coal requirements.

Furthermore, dry bulk trade received additional negative pressure from higher consumption stocks. For example, China iron ore stocks at ports are currently down 30% year-on-year, while thermal coal stocks at major power plants have decreased 4% during the last seven months. As a result, during the first five months of 2015, Chinese imports of iron ore and coal decreased by 1% and 38% respectively.

On the other hand, the Chinese mining industry has been negatively affected from the correction of raw material prices.

Between January and May 2015, China domestic production of iron ore and coal have decreased by 10% and 8.5% respectively. We believe that China's depletion of stocks and

domestic production cutbacks will inevitably lead to higher import requirements in the near future, and we view 2015 to be a transition year for trade growth.

According to Clarksons' latest report, total dry bulk trade for full 2015 is projected to grow at approximately 2%. Total iron ore ton-miles are projected to grow at approximately 5%. Although Clarksons has revised downwards their projections, Chinese imports of iron ore are still estimated to reach 980 million tons for full 2015. These would require a significant rebound in import growth between July 2015 and December 2015 from minus 1% to plus 9.5%.

Total coal ton-miles are projected to decrease by approximately 1%. Coal imports from India have been growing at approximately 10% per annum and have partly been offsetting the strong decrease in Chinese coal imports experienced during the last 12 months.

China coal imports are expected to slowly stabilize and may experience a rebound during the second half of 2015. This is mainly due to early indications of weaker hydropower growth decision and depletion of domestic stocks.

Total grain ton-miles, including soybeans, are projected to remain flat year-over-year following a strong increase of 9% during 2014. Furthermore, total minor bulk tons are projected to grow at approximately 2% during full 2015, as bauxite and nickel ore volumes slowly recover from the early 2014 Indonesia export ban.

Looking into 2016, we expect trade to grow at a higher pace than 2015. There are a number of positive factors that gradually emerged and should lead to a steady recovery of global commodities [ph] consumption (27:14) and demand for dry bulk vessels. Low oil, low raw material prices and interest rates are expected to fuel the economy and translate into increased GDP growth rates. According to IMF, global GDP growth for 2016 is projected at 3.8%, up from 3.5% projected for 2015.

Despite China's GDP growing at a slower pace, the implementation of structural reforms and government incentives, including the monetary stimulus by the Central Bank, are expected to boost real estate and infrastructure investments.

India's steel consumption growth is projected to be the highest among the major steel producing nations with 2016 projected to register 7.3% growth versus 6.2% growth for 2015. The Asian Infrastructure Investment Bank plans to finance large scale infrastructure projects across Asia starting from 2016. And as this materialize in Asia, total iron ore ton-miles will accelerate from 2016 due to increased exports from Brazil.

Asia coal ton-miles are expected to gradually accelerate due to lower Indonesian exports and the focus on increasing domestic consumption as 20% of the population in Indonesia still live without electricity.

On the European front, euro depreciation against the dollar and ECB's quantitative easing, which will unfold through 2016, is expected to support the euro area industrial production and exports. Minor bulk volumes will also benefit from the low commodity price environment and are already showing some initial signs of recovery.

China bauxite and nickel ore imports will continue to recover due to stock depletion and total minor bulk and grain trade will gradually receive a ton-mile boost from longer distances and increasing balance of trade between the Atlantic and the Pacific regions.

Absence of ordering and increased demolition has slowly put a cap for fleet growth for the next couple of years.

Scrapping is the single most effective commercial defensive weapon ship owners have in their arsenal apart from laying up. If we stop scrapping, the market will commensurately delay improving.

Before we close this presentation and pass the floor back to you for any questions you might have, I want to touch upon a few points that we feel differentiate Star Bulk from the competition.

Please turn to slide 15. We believe we have created an attractive platform of 94 vessels on a fully-delivered basis that has several distinct characteristics, experienced and efficient commercial and technical in-house management operations that have consistently outperformed industry benchmarks, whose employees work for us on salary and bonus without related party commissions, a remote vessel performance monitoring department that will ensure the efficient operation of our vessels and the reduction in voyage and maintenance costs, a platform that has the backing of more than 14 banks and two leasing companies and a core shareholder base that has shown its commitment to the company.

Our core set of institutional shareholders, Oaktree, Monarch, Angelo Gordon, as well as my family and associates, all invested in the company in 2015. We believe in the value of the platform and the prospects of Star Bulk.

As of June 24, our company had a cash balance of $335.2 million to withstand the current low freight rate environment.

We're confident that when the recovery comes, our company will be in a position to take advantage of the improved rate environment with its modern fleet and secured profits for its shareholders.

Without taking any more of your time, I will now pass the floor over to the operator to answer any questions you might have.

Q&A

Operator

Thank you very much indeed, sir, and we'll now begin the question-and-answer session. [Operator Instructions] And from Deutsche Bank, your first question comes from the line of Amit Mehrotra. Your line is now open, sir.

<Q - Amit Mehrotra>: Yeah, thank you. Good afternoon, everybody. I had a couple of specific questions for Christos and Simos. I'm comparing the company's June corporate presentation to the first quarter's slide deck that you guys released today. It shows the cash balance on May 31 of $353 million and as of June 24, it stood at $335 million, so $18 million less. But the 2Q remaining newbuild CapEx went up, and the repaid debt went down between the two disclosures, and also the company closed on three vessel sales in June. So, I appreciate if you could just sort of help me reconcile those and maybe account for the lower cash balance from the end of May, May 31, to June 24.

<A - Simos Georgios Spyrou>: Amit, I cannot see where the CapEx is reduced between the June presentation and the presentation that we have now...

<Q - Amit Mehrotra>: Okay.

<A - Simos Georgios Spyrou>: Actually...

<Q - Amit Mehrotra>: Maybe I have it wrong, but it looks like in this current presentation, the CapEx payments – let me just see – it looks like it's $26.4 million and in the June presentation, it was $23.1 million. So, it's up about $3.3 million.

<A - Simos Georgios Spyrou>: Amit, the decrease in the cash balance is mostly due to debt repayments. But why don't we take it offline so as to reconcile it sort of item by item?

<Q - Amit Mehrotra>: Okay. Yeah, that'd be helpful because the debt repayment actually went down from the June...

<Q - Amit Mehrotra>: Okay.

<A - Simos Georgios Spyrou>: Amit, there is another $5.8 million of CapEx which was in the previous presentation in the second quarter. And due to the changes that we have, it was shifted to the fourth quarter – end of third quarter actually.

<Q - Amit Mehrotra>: Got it, okay. Maybe I'll just take it offline and get a walk, that'd be great. My other question is on the debt repayment. So as of the $143 million, it's due between now and the end of 2016, does that include the balloon payments?

<A - Simos Georgios Spyrou>: No.

<Q - Amit Mehrotra>: Okay. And so, the balloon payment is $71.5 million, is that right?

<A - Simos Georgios Spyrou>: Well, it's actually less, and now after the agreement that we have, the balloon payment is about $61 million for 2016.

<Q - Amit Mehrotra>: Okay. And the plan for that is just to refinance that on a secured basis?

<A - Simos Georgios Spyrou>: Yes.

<Q - Amit Mehrotra>: Okay, great. Sorry to get on the weeds on that. I just wanted to clarify those questions. Maybe I can just ask a higher level question on the maintenance CapEx. I believe there are things that can be done today or the company may be doing things today in terms of surveys of their existing vessels that maybe would allow for deferrals of higher cost maintenance CapEx down the road from a regulatory compliance standpoint. Can you just talk about sort of what you're doing today to maybe defer those potential costs, and are there any sort of extra cash cost associated with that from a maintenance CapEx standpoint? Thanks.

<A - Hamish Norton>: Amit, it's Hamish Norton. I mean, we are dry-docking certain vessels in 2015 that we would not necessarily be required to dry-dock in 2015 but might be required to dry-dock later. But vessels, which pass their special survey in 2015, might not have to install a ballast water treatment system for quite a number of years, whereas they, otherwise, might have to install a ballast water treatment system in their first dry docking after January 1, 2016.

<Q - Amit Mehrotra>: Right.

<A - Hamish Norton>: There's some cost associated with that and it's in all of our cash flow projections. But it also saves a considerable cost in 2016 and 2017.

<Q - Amit Mehrotra>: Right, right. And so is that – just order of magnitude, I know it's relatively nominal, but are we talking like $100,000 per vessel, $200,000 per vessel? Is that in the magnitude?

<A - Petros Pappas>: Amit, it's probably more per vessel because we're basically going through dry docks as well. So I would say that's probably around $400,000 or thereabout or maybe even more, depending on the type of vessel. We could go even down to $200,000, but on a Cape, for example, it would be probably $500,000, $600,000, $700,000. But as Hamish said, this is a necessary thing for us to be able to push forward the installation of this plant for the next – for average, I think, four-and-a-half years. Plus, we get an advantage by dry docking earlier because we clean the bottoms and we paint them, and therefore the vessels perform better. So at the end of the day, this is money well spent.

<Q - Amit Mehrotra>: Right, right. Okay. That's all I had. Thank you so much.

<A - Petros Pappas>: Thank you.

Operator

Thank you very much, sir. Now from UBS, you have a question from the line of Spiro Dounis. Your line is now open.

<Q - Spiro M. Dounis>: Hey, good morning and good afternoon, gentleman. Thanks for taking the question. So, you all certainly have been pretty busy in the last few months and certainly have accomplished a lot. Just wondering looking forward, it looks like maybe a few more vessel sales could be on the way to help [ph] pay (38:15) the cash balance. I guess, two-part question. One, how should we be thinking about additional steps you feel you need to take from here to maybe ride out the storm?

And two, back on to that $300 million pro-forma cash number, it looks like with no cash burn, that would get you through all your principal debt repayments through 2017. And Petros, in a lot of your comments, it sounds like maybe that's when the market, in your mind, should actually start to really recover. Would that be consistent with your line of thinking?

<A - Hamish Norton>: Hi. It's Hamish Norton, and I'll start off the answer and pass to our CFOs. But we have certainly talked about our plan including the sale of a handful of younger vessels that are not announced here and probably three but not probably much more than that. And in terms of the debt repayments, we do intend to refinance the bulk of our bullet maturities on our bank loans. And Simos and Christos, maybe you can address that.

<A - Christos Begleris>: Sure. Hi, Spiro. This is Christos. We definitely intend to refinance the vessels that are coming off debt essentially in 2016 and 2017. As you have correctly pointed out, we have raised enough proceeds so as to be able to withstand a market that is at current levels for at least another 18 months to 24 months and take delivery of all of our newbuildings. That has been the goal of raising the equity that we have raised in the last six months.

<Q - Spiro M. Dounis>: Got it. No, that color is helpful actually. And then so, I guess, maybe just switching to more industry factors, I guess optimism seems to be building for restocking rallies just due to the low iron ore stocks in China that you mentioned before. Are you seeing early indications that a rally could actually be here soon? And I guess do you worry that a short-term boost in rate might actually slow down the pace of scrapping which I agree is definitely the single best way to drive a real recovery?

<A - Petros Pappas>: Spiro. We're definitely not out of the woodwork. I agree with you, if the market goes up in the next couple of months, it has already started improving. Actually, I was looking at our income figures this month. They are 16% better than it has been up to now. So, it has been improving and we are actually in July which usually is not a good month and August is not a good month either. So, if we're 16% up in July, it's possible that we might see a better market during the second half of this year. Unfortunately, this will probably have an effect on scrapping. So, it is possible that scrapping will slowdown. And if that happens, we'll probably see again a slow beginning of next year. And of course, if scrap prices don't go up, that will be an additional incentive for all the vessels that we get.

So in my view, we will be seeing a decent second half of the year, and that will induce ship owners not to scrap as much, so scrapping will probably slowdown, and that will probably then turn into a slower first half of next year. But then that would increase scrapping again. So, it's the usual cycles of shipping that we cannot get out of.

<Q - Spiro M. Dounis>: Yeah, I think that makes sense. I really appreciate the color, guys. Thank you.

<A - Petros Pappas>: Thank you.

Operator

Thank you very much indeed, sir. And now before I move on to the next question, a gentle reminder.

And this question is from Global Hunter. It comes from the line of Charles Rupinski. Your line is open, sir.

<Q - Charles William Rupinski>: Yes, good afternoon and thank you for taking my question. Most of my questions have actually been answered. But I guess I would have to ask just regarding the industry, have you heard anything about – I think I've asked this question in the last calls – warm layups and to what extent that might be behind some of the recent strength in rates and whether that could go away relatively quickly or if it's a non-factor?

<A - Petros Pappas>: Warm layups, so we have only seen a few of those on the Capesize sector, I would say, and very few cold layups. I do not – I have not personally seen anything in smaller vessels than Capes. I don't think it's a big factor yet. In order to decide to lay up, your income should be actually – depending if your operating expenses are, for example, $5,000 and you make less than $3,000, then you should start thinking about laying up. The only size of vessels where we show very low rates were the Capesizes, and there's been a few stop but very few. And I think as we will be seeing a stronger market in the second half of this year, we'll probably not see much layup in the market.

<Q - Charles William Rupinski>: All right. Well, thank you. That's very helpful color. Appreciate it.

<A - Petros Pappas>: Thank you.

Operator

Thank you very much indeed, sir. And at this point, gentlemen, there are no further questions. So, I shall pass the floor back to you for closing remarks.

Petros Pappas

No further comments, operator. Thank you very much.